

**FISCAL NOTE**  
**HB 3230 - SB 3268**

March 10, 2004

**SUMMARY OF BILL:** Provides tax credits against franchise, excise, and sales taxes for recipients of Small Business Innovation Research Program grants that invest a minimum of \$500,000 on qualified buildings or machinery and equipment. The investment must be for research and development, pilot scale manufacturing, or the commercial application of qualified research and development.

**ESTIMATED FISCAL IMPACT:**

**Decrease State Revenues - Exceeds \$100,000**

**Decrease Local Govt. Revenues - Exceeds \$18,000 / Permissive**

Estimate assumes:

- In Tennessee, approximately 40 grants totaling \$10,000,000 are awarded each year by the Small Business Innovation Research Program.
- Of the 40 grants issued, three companies would invest the \$500,000 minimum on qualified capital.
- The \$500,000 investment is made on items subject to state and local government sales taxes.
- Assuming three companies make the minimum \$500,000 investment, the decrease in state revenues is  $\$1,500,000 \times 7\% = \$105,000$ .
- Local governments are permitted, by the bill, to provide an exemption to companies qualifying for the state credit up to the amount not allocated exclusively for educational purposes. The total amount of local option taxes paid on the minimum qualified investment for three companies is  $\$1,500,000 \times 2.4\% = \$36,000$  (assuming a local option tax rate of 2.4%). Assuming 50% of local option taxes are allocated for education, the total amount that local governments would be permitted to exempt under this scenario is \$18,000.
- The businesses qualifying for the credits would have made these investments in the absence of this bill. To the extent that these investments are made as a result of this bill, the revenue to state and local governments would be foregone.

**CERTIFICATION:**

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.



James W. White, Executive Director

